

# Capitation Rates Paid to Medicaid Health Plans

(FY2021 Appropriation Act - Public Act 166 of 2020)

June 1, 2021

**Sec. 1880. (1) By June 1 of the current fiscal year, the department shall provide a report to the senate and house committees on appropriations, the senate and house fiscal agencies, and the state budget office on the newly implemented statewide Medicaid preferred drug list policy. This report must include, but is not limited to, all of the following:**

**(a) The difference between estimated pharmacy expenditures and actual pharmacy expenditures incurred by the Medicaid health plans through the first 2 quarters of the fiscal year.**

**(b) The difference between estimated federal and supplemental rebates and actual amount of federal and supplemental rebates realized from the Medicaid health plan pharmacy utilization through the first 2 quarters of the fiscal year.**

**(c) The difference between the estimated ingredient cost increase and the actual ingredient cost increase incurred by the Medicaid health plans through the first 2 quarters of the fiscal year.**

**(d) The difference between the estimated annual change in pharmacy utilization and the actual annual change in pharmacy utilization incurred by the Medicaid health plans through the first 2 quarters of the fiscal year.**

**(2) By June 1 of the current fiscal year, the department shall provide adjustments to capitation rates paid to Medicaid health plans to reflect the difference between the rates implemented for fiscal year 2020-2021 and the per enrollee health benefit expenses incurred by contracted health plans to the senate and house committees on appropriations, the senate and house fiscal agencies, and the state budget office. Any adjustments made to the capitation rates under this section shall be made outside of the updated estimates of Medicaid expenditures revised pursuant to section 367b of the management and budget act, 1984 PA 431, MCL 18.1367b, in May of the current fiscal year for the impacted period.**



## Section 1880(2) PA 166 of 2020

(1) By June 1 of the current fiscal year, the department shall provide a report to the senate and house committees on appropriations, the senate and house fiscal agencies, and the state budget office on the newly implemented statewide Medicaid preferred drug list policy. This report must include, but is not limited to, all of the following:

(a) The difference between estimated pharmacy expenditures and actual pharmacy expenditures incurred by the Medicaid health plans through the first 2 quarters of the fiscal year.

**Response:** Total projected pharmacy benefit expense included in the capitation rates and based on actual October 2020 through March 2021 enrollment was \$639.5 million. Actual encounter experience submitted through May 3<sup>rd</sup>, 2021 for the 6-month incurred period from October 2020 to March 2021 reflects \$690.6 million expenditures for pharmacy services. This reflects an amount \$51.1 million higher than projected across all populations.

(b) The difference between estimated federal and supplemental rebates and actual amount of federal and supplemental rebates realized from the Medicaid health plan pharmacy utilization through the first 2 quarters of the fiscal year.

**Response:** With \$322.3 million in estimated rebate savings for the fiscal year, the department compared an estimated \$161.15 million in combined additional federal and new supplemental drug manufacturer rebates for the first 2 quarters to actual invoiced rebates. There was more than \$84 million in federal and new supplemental drug manufacturer Managed Care Organization (MCO) rebates invoiced for the first quarter of the fiscal year and nearly \$111 million for the second quarter for a total of \$195 million in invoiced rebates for the first 2 quarters of the fiscal year. As such, the actual rebates exceeded the estimated amount by nearly \$34 million.

(c) The difference between the estimated ingredient cost increase and the actual ingredient cost increase incurred by the Medicaid health plans through the first 2 quarters of the fiscal year.

**Response:** The main driver in the higher than projected pharmacy expenditures is differences in drug product ingredient costs due to pricing increases. \$671.6 million of ingredient cost expenditures have been observed for the first two quarters of fiscal year 2021 as compared to the \$620.2 million projected in the capitation rates for this rating period. This represents a difference of \$51.4 million.

(d) The difference between the estimated annual change in pharmacy utilization and the actual annual change in pharmacy utilization incurred by the Medicaid health plans through the first 2 quarters of the fiscal year.

**Response:** The total projected number of pharmacy prescriptions was 12.9 million for the first 2 quarters of fiscal year 2021. This represents a value 2.1 million higher than the actual number of prescriptions identified for the October 2020 to March 2021 incurred period (10.8 million).

(2) By June 1 of the current fiscal year, the department shall provide adjustments to capitation rates paid to Medicaid health plans to reflect the difference between the rates implemented for Fiscal Year 2020-2021 and the per enrollee health benefit expenses incurred by contracted health plans to the senate and house committees on appropriations, the senate and house fiscal agencies, and the state budget office. Any adjustments made to the capitation rates under this section shall be made outside of the updated estimates of Medicaid expenditures revised pursuant to section 367b of the management and budget act, 1984 PA 431, MCL 18.1367b, in May of the current fiscal year for the impacted period.

**Response:** Capitation rates are certified in composite across all covered services for each rate cell. When looking at the composite average across all rate cells and service categories, the average benefit expense included in the fiscal year 2021 capitation rates is \$263.44 per member per month (PMPM) for the October 2020 through March 2021 rating period based on actual enrollment. Based on a comparison of reported MCO experience, the emerging experience PMPM is equal to \$239.51, approximately \$24 less than the projected PMPM. In aggregate, this represents over \$295 million more paid to Medicaid health plans than the estimated incurred benefit expenses for the 6-month time period. The per enrollee pharmaceutical benefit expenses incurred by contracted health plans are an estimated \$102 million higher than the rates initially implemented for fiscal year 2021. A rate adjustment covering this difference is not supported by the current appropriation.

*Table compares amounts projected as part of the October 2020 through March 2021 capitation rate development with actual emerging utilization and expenditures for the Comprehensive Health Care Program.*

**RISK CORRIDOR MODELED IMPACT: OCT 2020-MAR 2021 EXPERIENCE (TOTALS IN MILLIONS)**

| METRIC                        | PROJECTED  | ACTUAL     | DIFFERENCE         |
|-------------------------------|------------|------------|--------------------|
| Member Months                 | 11,211,000 | 12,361,454 | 1,150,454          |
| <i>Pharmacy Benefit</i>       |            |            |                    |
| Annual Util/1000              | 12,550     | 10,443     | (2,106) / (16.8%)  |
| Average Ingredient CPS        | \$ 47.97   | \$ 62.42   | \$ 14.45 / 30.1%   |
| Average Dispensing Fee CPS    | \$ 1.50    | \$ 1.77    | \$ 0.28 / 18.7%    |
| Pharmacy PMPM                 | \$ 51.74   | \$ 55.87   | \$ 4.13 / 8.0%     |
| Total Scripts                 | 12.9       | 10.8       | (2.2) / (17.0%)    |
| Total Ingredient Cost         | \$ 620.2   | \$ 671.6   | \$ 51.4 / 8.3%     |
| Total Dispensing Fee          | \$ 19.3    | \$ 19.1    | (\$ 0.3) / (1.6%)  |
| Total Pharmacy Benefit        | \$ 639.5   | \$ 690.6   | \$ 51.1 / 8.0%     |
| <i>All Service Categories</i> |            |            |                    |
| Composite PMPM                | \$ 263.44  | \$ 239.51  | \$(23.93) / (9.1%) |
| Totals Benefit Expense        | \$ 3,256.5 | \$ 2,960.7 | (\$295.8) / (9.1%) |

Notes:

1. Projected metrics normalized based on actual October 2020 through March 2021 enrollment.
2. Actual experience includes adjustment for claims IBNR.